PUBLIC ADMINISTRATION MODERNIZATION PROGRAM

(UR-0130)
(UR-0145)

EXECUTIVE SUMMARY

Borrower and guarantor: Republic of Uruguay

Executing agency: Planning and Budget Office (OPP)

Amount and source: [1]

IDB sector loan: (OC):	US$ 150.0 million
Technical-cooperation loan (TC):	US$ 3.6 million
Local counterpart to TC:	US$ 2.3 million

Terms and conditions for the sector loan and technical-cooperation loan:

	Sector loan	**Technical-cooperation loan**
Amortization period:	20 years	20 years
Grace period:	5 years	5 years
Disbursement period:	36 months	42 months
Interest rate:	variable	variable
Inspection and supervision:	1.00%	1.00%
Credit fee:	0.75%	0.75%
Currency:	U.S. dollars drawn from the Single Currency Facility	U.S. dollars drawn from the Single Currency Facility

Objectives: The general objective of the program is to boost the quality and productivity of central government administration and the services it provides, including reducing the costs it imposes on the private sector and enhancing the wellbeing of the citizenry. The program's specific objectives are: (i) to make revenue collection more efficient by optimizing structures and establishing appropriate incentives; (ii) to improve the efficiency, efficacy and quality of public expenditure; (iii) to reduce the cost to the private sector and individual citizens of central government intervention; (iv) to pave the way for

[1] The sector loan is accompanied by a technical-cooperation operation (UR-0145), presented in Annex II-1.

modernization of human resource management by the central government; and (v) to make central government intervention more transparent in the eyes of citizens and the private sector.

Description: The program will be financed with a fast-disbursing sector loan for US$150 million, and a parallel technical-cooperation loan of US$3.6 million to support implementation of the policy actions promoted in the program (see Plan of Operations in Annex II-1). Some of the actions will be coordinated with nonreimbursable technical cooperation to be financed by the Multilateral Investment Fund (TC-0103000), currently under preparation. The sector loan will focus on the policy reforms promoted by the program, and will define and establish specific targets for implementing the measures, as set out in the policy actions matrix (Annex I-2). The sector loan will be disbursed in three tranches of US$60 million, US$50 million and US$40 million, in that order.

The program is organized in four components: (i) better management of public resources; (ii) enhanced competitiveness (State and enterprise); (iii) better quality public services (State and citizen); and (iv) improved management of central government human resources.

Conditions for disbursement of the sector loan: The component for better **management of public resources** contains four broad areas of action: (i) modernizing the administration of public-sector revenues; (ii) enhancing the efficiency of public expenditure; (iii) reducing the cost of central government procurement and making it more transparent; and (iv) the divestment of superfluous real estate. In this component, the policy actions matrix sets the following conditions for the *first tranche*: (i) presentation of a legislative bill on human resource management in the General Tax Directorate (DGI) of the Ministry of Economic Affairs and Finance (MEF) stipulating, among other provisions, the option of hiring qualified professionals under fixed-term contracts with performance-based renewal, and the entry into force of rules to support the MEF in its fight against contraband; (ii) proposed simplified standard competitive bidding documents; and (iii) presentation of a plan for divestment or redeployment of properties identified as superfluous identified in the previous sector loan. Conditions for the *second tranche* require the executing agency to present evidence of: (i) entry into force of a decree establishing bylaws for the DNA; based on decrees 459/997 and 578/975 and the changes necessary for modernization of the DNA; (ii) execution of expenditure by activity center being coordinated with the Expenditure Execution System (SEG); (iii) proposed legal framework for government procurement having been presented to the legislature and the institutional structure of the new procurement system having been defined and implemented; taking into account private-sector participation, operations management, and the strategic framework; and (iv) US$5 million having been received or saved as the result of the divestment or redeployment of superfluous real estate. Disbursement of the *third tranche* requires evidence of: (i) the executing units that represent 60% of the central government's total expenditure executing expenditure by activity center with the Accountability and Budget Execution Bill; and (ii) savings of US$15 million have been achieved through efficiency gains in procurement compared with the baseline basket, along with US$10 million in income or savings from the divestment or redeployment of superfluous properties.

The component for **enhancing competitiveness** contains two areas of action: (i) rationalization of central government regulations, prices and charges; and (ii) rationalization of the main items of central government bureaucracy that the private sector has to comply with. The policy actions matrix for this component makes the *first tranche* of financing conditional on: (i) modification of at least 70 regulations affecting competition in markets; (ii) cost savings of US$7 million achieved by the rationalization (which is already under way) of prices and charges; (iii) presentation of a plan for cost savings amounting to at least US$23 million, to be achieved by rationalizing processes, amending regulations, decreasing or eliminating prices and charges, including the method of measurement; (iv) presentation of a ranked list of regulations as a basis for government decision-taking, and a proposed decree on the regulatory and methodological framework administering regulations, prices and charges, ensuring quality, control and dissemination of new proposals for regulations, prices and charges; and (v) evidence of legislative authorization to lower the tax on foreign currency purchases (ICOME) and employer contributions in public-sector firms. Disbursement of the *second tranche* will require evidence of: (i) achievement of savings amounting to US$9 million from the rationalization or abolition of regulations, prices and charges, and processes defined as priority, including regulations in the areas of foreign trade and the labor market that will be included in the existing inventory; and (ii) presentation and public dissemination of a report certifying that 100% of new central government regulations, prices and charges have undergone cost-effectiveness analysis, in the case of prices and charges, and regulatory impact methodology analysis (MIR) in the case of regulations. Disbursement of the *third tranche* will require evidence of: (i) achievement of US$14 million in cost savings from the rationalization or abolition of regulations, prices and charges, and processes defined as priority, including regulations in the areas of foreign trade and the labor market that will be included in the existing inventory; (ii) presentation and public dissemination of a CEPRE-approved report certifying that 100% of the new central government regulations, prices and fees have undergone a cost-effectiveness analysis, in the case of prices and fees, and a regulatory impact study, in the case of regulations, by the OPP; and (iii) reductions in ICOME and employer contributions in public-sector firms being passed on to users, amounting to US$12 million.

The **service quality component** includes actions to improve: (i) the quality and administration of the main central government citizen-services; (ii) the transparency of central government actions in the eyes of citizens. For the *first tranche* of this component, the policy actions matrix requires: (i) development of a plan setting targets for savings in time (30% average) and costs (at least 15%) for selected services of high social impact; and (ii) preparation of a plan containing targets for electronic access and compliance with procedures through a second-generation government Internet portal. For the *second tranche*, the policy actions matrix requires: (i) fulfillment of 100% of targets for savings in time and costs in 50% of selected services; and (ii) design of the second-generation portal. For the *third tranche*, the aim is to achieve 100% of the savings plan targets in 100% of the selected services, and to have 100% of selected procedures available on-line, wherever the nature of the service makes this feasible.

The **human resource management** component contains actions in three areas: (i) modernization of the legal framework for central government staff management; (ii) activities to reform the National Civil Service Office (ONSC); and (iii) implementation of the information systems designed under the previous program (995/OC-UR) with reference to working conditions and the remuneration system. For this component, the policy actions matrix sets targets concerning: (i) implementation of the human resource information systems designed in the previous program (995/OC-UR) *for each of the tranches*; (ii) preparation *(second tranche)* and government approval *(third tranche)* of a bill to modernize the legal and human resource institutional framework; and (iii) approval *(first tranche)* and execution *(second and third tranches)* of a program to modernize the ONSC, with emphasis on the training of civil servants.

Bank's strategy in the country and sector: In keeping with the government's economic policy and with the Bank's Eighth General Replenishment, the key objective of the Bank's strategy in Uruguay is to support the government's development programs and policies for the five-year period 2000-2004, with a view to achieving sustained growth with stability to make it possible to improve social equity. The Bank's strategy will focus on three areas. In the area of **competitiveness and regional integration**, the Bank will support initiatives to increase private-sector competitiveness and investment, based on export-oriented production founded on comparative advantages and the introduction of modern technologies. In the area of **State modernization and governance**, the Bank will support the State transformation process, in order to reduce its presence in the economy; increase its efficiency and effectiveness, rationalize and target its interventions, and reduce its incidence on domestic goods and service production. In the **welfare and social equity** area, the aim will be to increase equity and bring the most vulnerable population groups into the development process, offering them the chance of a better quality of life.

Social and environmental review: The Committee on Environment and Social Impact (CESI) made the following recommendations as a result of the Profile II review: (i) ensure that environmental aspects are included in the management reform process, to be internalized in decision-making and in the various activities (information systems, training, etc.); (ii) explore with the government the possibility of adopting measures to improve the fiscal autonomy of environmental institutions; and (iii) consider environmental regulations in conjunction with the Uruguay Environmental Program (UR-0138), currently being prepared (see paragraphs 3.18 and 3.19).

Viability: The successful execution of the previous State sectoral reform program displayed a high degree of political and technical commitment toward the program (loan 995/OC-UR). The current administration has maintained the same political and technical commitment. Uruguay's central government reform process was launched in 1995 by creating the Executive Committee for State Reform (CEPRE), which has ensured the continuity of policies and directives at the highest level. The technical team in the Uruguayan government that has directed and supported preparation of the current program is essentially the same as was responsible for preparing and executing the previous one. This group, which has been formalized and institutionalized in the Planning and Budget Office (OPP), is endowed with highly skilled staff of broad experience in this field. Led by the CEPRE executive secretary, the group was responsible for the achievements and external evaluations of the 1995-2000 reform program, also supported by the Bank. A decentralized execution scheme has been designed, based on active participation by authorities and officials from the entities involved in program implementation.

Risks and benefits: *Management of public resources*. The success of this component will depend on making major improvements to the DGI and DNA organizational and functional structures; this, in turn, depends on the political will of the Uruguayan government to support the changes and their consequences. The MEF has classified the program as high priority, and has given full support to preparing the program thus far. The main **benefits** of this component are: (i) higher productivity in tax collection and less tax evasion; (ii) better information and accessibility for taxpayers in paying their taxes; (iii) more transparency in fiscal information and in the administration of taxes; and (iv) sale of a set of fiscal assets declared superfluous in the previous operation.

Enhanced competitiveness. By deregulating and abolishing certain prices and charges, the program may harm sectors that currently **benefit** from existing administrative and market restrictions. To mitigate this risk, steps will be taken: (i) to encourage private-sector participation in the process of deregulating and abolishing prices and charges; and (ii) to inform the direct beneficiaries about the reforms, using the program's communication strategy. The main benefits of this component will be: (i) savings of at least US$30 million per year by the end of the program, resulting from the rationalization of regulations, prices and charges, and processes; (ii) better and more transparent administration of both the regulatory framework and prices and charges; (iii) the establishment of controls to improve the quality of central government regulatory administration; and (iv) reduction of the tax burden on public-service users subject to the tax on foreign-currency purchases (ICOME).

Quality of public services. To improve the quality of services provided to citizens and businesses, the internal management of central government agencies will need to be approached from the users' perspective. Accordingly, key administrative processes that provide services to citizens will be streamlined in order to make them more accessible and expeditious. An essential tool in this process will be the new technologies for management, information and communication. For the potential of these technologies to be fully exploited, however, an institutional framework is needed to make sure the government's electronic strategy is implemented consistently. Uruguay is putting this framework in place with the design and implementation of a government portal as part of the technical cooperation actions. At the same time, programs to introduce new ways of relating to citizens need to be made viable through information and communication mechanisms, in order to overcome potential resistance to the new technologies. The main **benefits** will be: (i) better-quality provision of certain public services as a result of shorter processing times; (ii) greater availability of information on services through the publication of service guides and leaflets; and (iii) access to public services using information technologies.

Human resources. The human resource management component may encounter hostility to anticipated reforms from labor unions. Nonetheless, insofar as the operation does not involve any redundancies but is limited to laying the foundations for new general

	rules on central government human resource management, the risk here should be slight. In fact, no major objections were raised in the previous operation, and restructuring and downsizing took place without major consequences. The expected **benefits** of this component are: (i) better compliance with targeted working conditions as a result of improved information on the workload; (ii) better information in the area of remuneration, thus making it possible to increase transparency and equity; (iii) a proposed new legal framework for modern and professional management of staff; and (iv) preparation of a modernization plan for the ONSC.
Special contractual conditions for the sector loan:	As mentioned above in the section on disbursement conditions and Annex I-2.
Exceptions to Bank policy in the Sector loan:	None
Procurement under the sector loan:	The proceeds of the fast-disbursing sector loan may be used to finance the aggregate foreign-currency cost of eligible imports from Bank member countries. Bank procedures on sector loans not requiring international competitive bidding will be applied in this case.
Poverty-targeting and social sector classification:	This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth General Replenishment (document AB-1704).
For the TC loan:	
Special contractual conditions for the TC loan:	See Annex II-1.
Exceptions to Bank policy in the TC loan:	See Annex II-1.
Procurement under the TC loan:	See Annex II-1